CAPITAL REGION AIRPORT AUTHORITY

Financial Report
with Supplemental Information
June 30, 2008

Capital Region Airport Authority

Contents

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Independent Auditor's Report

To the Board of Directors
Capital Region Airport Authority

We have audited the basic financial statements of Capital Region Airport Authority (the "Authority") as of June 30, 2008 and 2007 and for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2008 and 2007 and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (unaudited) (identified in the table of contents) is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Directors
Capital Region Airport Authority

In accordance with *Government Auditing Standards,* we have also issued a report under separate cover dated October 27, 2008 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Plante & Moran, PLLC

October 27, 2008

The following management's discussion and analysis (MD&A) of the Capital Region Airport Authority's activities is intended to provide an overview of the Authority's financial condition. The information contained in this MD&A should be considered in conjunction with the statement of net assets, the statement of revenue, expenses, and changes in net assets, and other statistical information contained in this report.

Financial Operations Highlights

- Operating revenues decreased to $7,344,723 in 2008 from $7,524,447 in 2007 as the Authority absorbed the decreased airline activity caused by the adverse economic conditions and struggling airline industry. Operating revenues increased slightly to $7,524,447 in 2007 from $7,351,482 in 2006 as adjusted airline rates and fees, combined with increases in concessions and land rentals, enabled the Authority to maintain consistent revenue levels.

- Mason Jewett Field’s net revenue continued to decrease as general aviation continues its retraction due to high fuel prices and poor economic conditions as a whole. Revenues decreased 13 percent to $112,180 in 2008 from $129,140 in 2007. Mason Jewett Field's net revenue decreased 5 percent to $129,140 in 2007 from $135,920 in 2006 due to decreased fuel sales as prices rose dramatically.

- Nonoperating revenue fluctuations are outlined as follows:

    - Tax revenue is committed to the annual debt retirement, airport development, and capital requirements of the Authority. This commitment is transferred from the airlines to ensure competitive airline rates are maintained. This revenue is also committed to establishing reserves in anticipation of future mandated obligations and/or operating obligations.
    - Investment income remained consistent with 2007 as airport reserves continue to be invested consistently and conservatively, thereby ensuring safety of principal.
    - Interest expense continued to decline as the outstanding bond indenture is retired.
    - Passenger facility charge revenue declined 15 percent from $1,088,059 to $920,190, reflecting the reduction of airline activity at the Capital Region International Airport, as this is a per passenger fee paid to the Authority.

- Operating expenses, exclusive of depreciation, increased 3.5 percent to $8,303,767 from $8,024,471 in 2007. Initial costs were incurred as the Airport began construction of its temporary Federal Inspection Station. Moreover, normal winter conditions combined with high fuel prices added to the total cost increase. Operating expenses, exclusive of depreciation, decreased to $8,024,471 in 2007 from $8,187,864 in 2006. This decline was due primarily from the costs savings in labor, fuel, and other supplies as a result of extremely mild winter conditions on the airfield.

Financial Operations Overview

Capital Region Airport Authority's mission, to "provide excellent airport facilities and services that exceed our customers' expectations," has driven a strategic plan which clearly enumerates directives designed to promote the recovery of the Authority's passenger base through increased quality and quantity of air service provided at the Capital Region Airport Authority. In 2008, management adopted this same mission to the development of national and international cargo initiatives. The Authority embarked on an aggressive campaign to expand international cargo operations here at the Airport through the establishment of Capital Region Airport Authority as a Port of Entry. The Port of Entry status was obtained in 2008 and the corresponding Federal Inspection Station construction immediately ensued. Key performance indicators for the Authority continue to be changes in net assets, as well as nonfinancial measurements including (but not limited to) passenger count, aircraft landings, and cargo activity.

The financial challenges of the airline industry and the economy as a whole have been well documented. The present economic climate has reinforced management's commitment to diversifying its revenue stream as aggressively as possible, thereby ensuring the long-term viability of the Capital Region Airport Authority.

Financial Position Summary

A condensed summary of the Authority's net assets for the years ended June 30 is presented below:

	2008	2007	2006
Assets			
Capital assets	$ 61,813,986	$ 57,306,281	$ 54,247,502
Other	15,764,495	14,041,491	10,614,555
Total assets	**$ 77,578,481**	**$ 71,347,772**	**$ 64,862,057**
Liabilities			
Current	$ 2,326,180	$ 1,788,349	$ 815,279
Revenue bonds	11,332,958	11,930,878	12,503,798
Other	326,177	286,312	349,644
Total liabilities	**$ 13,985,315**	**$ 14,005,539**	**$ 13,668,721**
Net Assets			
Unrestricted	$ 9,682,758	$ 6,825,835	$ 4,979,009
Restricted	4,064,380	5,750,995	4,470,623
Invested in capital	49,846,028	44,765,403	41,743,704
Total net assets	**$ 63,593,166**	**$ 57,342,233**	**$ 51,193,336**

Summary of Changes in Net Assets

A condensed summary of the Authority's changes in net assets for the years ended June 30 is presented below:

	2008	2007	2006
Operating revenue	$ 7,344,723	$ 7,524,447	$ 7,351,482
Operating expense	12,320,102	11,752,968	11,631,791
Operating loss	(4,975,379)	(4,228,521)	(4,280,309)
Nonoperating revenue (expenses):			
Tax revenue	5,217,764	5,087,842	3,176,612
Investment income	460,799	416,148	261,476
Interest expense	(675,759)	(698,549)	(726,919)
Miscellaneous - Net	-	417,216	29,551
Passenger facility charges	920,190	1,088,059	1,212,476
Net nonoperating revenue	5,922,994	6,310,716	3,953,196
Net income (loss) before capital contributions	947,615	2,082,195	(327,113)
Capital contributions	5,303,318	4,066,702	4,672,043
Net income	**$ 6,250,933**	**$ 6,148,897**	**$ 4,344,930**

Capital Asset and Debt Administration

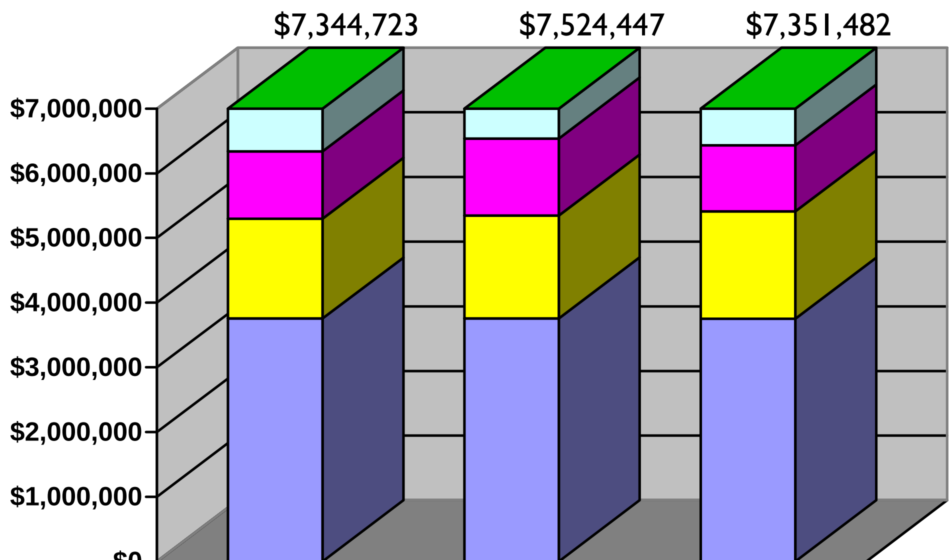
Capital assets consist of land, buildings, taxiways, runways, machinery, equipment, and improvements in progress. Contributions of approximately $5.3 million in 2008 were used primarily for the cargo ramp expansion and the Dewitt Road relocation project. Capital assets increased by $6,787,278 during 2007, primarily due to the runway extension.

At June 30, 2008 and 2007, the Authority had outstanding bonds totaling $11,967,958 and $12,540,878, respectively.

Revenues

The following chart depicts the Authority's operating revenue sources, and their relationship to the total operating revenues for the years ended June 30:

Operating Revenue

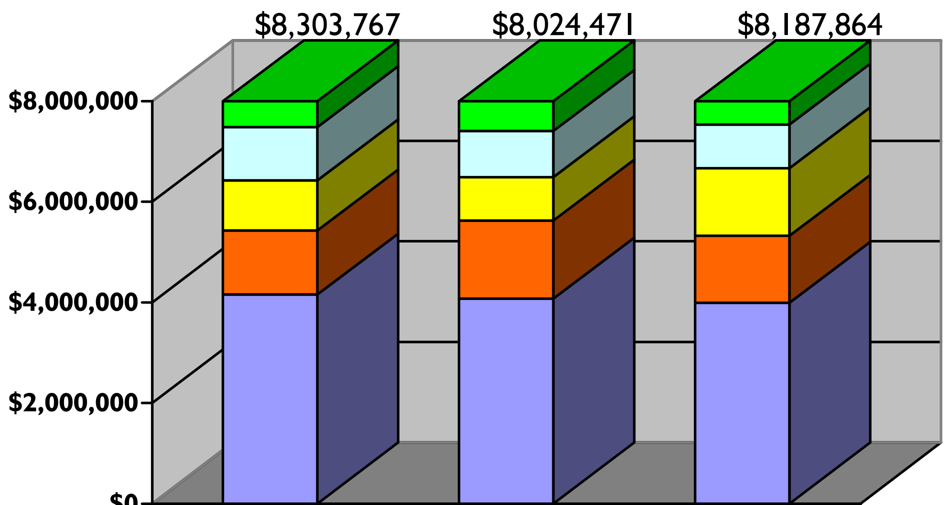


	2008	2007	2006
Mason Jewett Field	$112,180	$129,140	$135,920
Concessions	$896,117	$857,319	$785,479
Rentals	$1,040,348	$1,190,286	$1,019,450
Parking Lot Fees	$1,542,982	$1,591,847	$1,659,445
Airlines	$3,753,096	$3,755,855	$3,751,188

Expenses

The following chart depicts the Authority's major operating expense categories, exclusive of depreciation, and their relation to the total operating expenses for the years ended June:

Operating Expenses



	2008	2007	2006
Utilities/Fuel	$819,730	$617,655	$654,229
Maintenance/Operating	$1,059,456	$921,614	$866,327
Contract Services	$995,357	$857,590	$1,347,605
Marketing	$1,274,650	$1,556,752	$1,329,180
Salaries and Benefits	$4,154,574	$4,070,860	$3,990,523

Airline Rates and Charges

The Authority sets rates and charges annually by adoption of a resolution based on an Airport System Residual (cost of services) methodology. This methodology utilizes the Authority's statement of operations and debt service requirements to allocate these costs to the various air service providers. These rates include the terminal rental rates, landing fees, and airline apron fees. These rates are as follows:

	2008	2007	2006
Terminal rental (exclusive space)	$ 34.71	$ 37.93	$ 38.08
Terminal rental (common space)	24.29	26.55	26.65
Landing fees (signatory rate per 1,000 pounds)	1.71	1.75	2.47
Airline apron fee (per 1,000 pounds)	0.95	0.53	0.52

Note: Figures for 2006 are an average rate as there was a mid-year adjustment to these rates.

Financial Statements

Capital Region Airport Authority's financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board. The Authority accounts for its activity in a single Enterprise Fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are depreciated (except land and construction in progress) over their useful lives. Construction in progress projects are closed and transferred to their respective capital accounts upon completion.

Contacting the Authority's Financial Management

This financial report is intended to provide taxpayers, customers, and bondholders with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the finance director's office at the Capital Region Airport Authority, 4100 Capital City Boulevard, Lansing, MI 48906.

Capital Region Airport Authority

Statement of Net Assets

	June 30 2008	June 30 2007
Assets		
Current Assets		
Cash and investments (Note 2)	$ 10,407,217	$ 6,395,516
Trade accounts receivable - Net of allowance for doubtful accounts	656,108	1,269,373
Passenger facility charges receivable	122,595	123,847
Prepaid expenses and other assets	146,984	105,575
Total current assets	11,332,904	7,894,311
Restricted Assets (Notes 2 and 3)	4,064,380	5,750,995
Other Assets	367,211	396,185
Capital Assets - Net (Note 4)	61,813,986	57,306,281
Total assets	**$ 77,578,481**	**$ 71,347,772**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,240,336	$ 710,321
Accrued bond interest payable	304,103	315,998
Revenue bonds payable (Note 5)	635,000	610,000
Compensated absences (Note 6)	146,741	152,030
Total current liabilities	2,326,180	1,788,349
Noncurrent Liabilities		
Revenue bonds payable - Excluding current installments (Note 5)	11,332,958	11,930,878
Compensated absences (Note 6)	326,177	286,312
Total liabilities	13,985,315	14,005,539
Net Assets		
Invested in capital assets - Net of related debt	49,846,028	44,765,403
Restricted (Note 3)	4,064,380	5,750,995
Unrestricted	9,682,758	6,825,835
Total net assets	63,593,166	57,342,233
Total liabilities and net assets	**$ 77,578,481**	**$ 71,347,772**

Capital Region Airport Authority

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30 2008	Year Ended June 30 2007
Operating Revenue		
Airline	$ 3,709,908	$ 3,739,434
Parking lot	1,542,982	1,591,847
Concessions	872,352	865,237
Terminal space rent	277,324	253,749
Land rent	807,135	902,704
Fuel revenue	78,084	144,889
Other	56,938	26,587
Total operating revenue	7,344,723	7,524,447
Operating Expenses		
Wages, benefits, and fringes	4,154,575	4,083,717
Supplies	183,167	169,521
Maintenance	456,790	308,458
Repairs	35,529	21,771
Services	995,357	825,857
Insurance	120,821	119,823
Employee development	104,654	124,936
Utilities, fuel, and communications	819,731	679,302
Equipment	106,285	62,786
Advertising	81,999	60,817
Other	52,207	57,617
Depreciation	4,016,335	3,728,497
Airport development	1,192,652	1,509,866
Total operating expenses	12,320,102	11,752,968
Operating Loss	(4,975,379)	(4,228,521)
Nonoperating Revenue (Expense)		
Tax revenue	5,217,764	5,087,842
Investment income	460,799	416,148
Interest and finance charges	(675,759)	(698,549)
Miscellaneous - Net	-	417,216
Passenger facility charge revenue	920,190	1,088,059
Total nonoperating revenue	5,922,994	6,310,716
Net Income - Before capital contributions	947,615	2,082,195
Capital Contributions	5,303,318	4,066,702
Net Income	6,250,933	6,148,897
Net Assets - Beginning of year	57,342,233	51,193,336
Net Assets - End of year	**$ 63,593,166**	**$ 57,342,233**

The Notes to Financial Statements are an Integral Part of this Statement.

Capital Region Airport Authority

Statement of Cash Flows

	Year Ended June 30	
	2008	2007
Cash Flows from Operating Activities		
Payments to employees	$ (4,154,575)	$ (4,085,396)
Payments to suppliers	(3,584,601)	(3,955,662)
Charges and rentals	7,971,829	7,179,876
Net cash provided by (used in) operating activities	232,653	(861,182)
Cash Flows from Noncapital Financing Activities		
Miscellaneous receipts	-	430,709
Taxes collected	5,217,764	5,021,899
Net cash provided by noncapital financing activities	5,217,764	5,452,608
Cash Flows from Capital and Related Financing Activities		
Principal payments on revenue bonds payable	(610,000)	-
Interest paid	(609,705)	(315,998)
Proceeds from sale of capital assets	9,500	-
Capital expenditures - Net	(3,287,867)	(2,710,380)
Passenger facility charges collected	921,442	1,082,422
Net cash used in capital and related financing activities	(3,576,630)	(1,943,956)
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,702,454	-
Purchase of investments	-	(1,832,905)
Interest earned on investments	451,299	412,921
Net cash provided by (used in) investing activities	2,153,753	(1,419,984)
Net Increase in Cash and Cash Equivalents	4,027,540	1,227,486
Cash and Cash Equivalents - Beginning of year	8,112,944	6,885,458
Cash and Cash Equivalents - End of year	**$ 12,140,484**	**$ 8,112,944**
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and investments	$ 10,407,217	$ 6,395,516
Restricted cash and investments	4,064,380	5,750,995
Less amounts classified as investments	(2,331,113)	(4,033,567)
Total cash and cash equivalents	**$ 12,140,484**	**$ 8,112,944**

Supplemental Cash Flow Information - Capital contributions amounting to $5,303,318 and $3,789,610 were received from both the federal government and the State of Michigan during 2008 and 2007, respectively, and were recorded as additions to property, buildings, equipment, and Authority revenue.

The Notes to Financial Statements are an Integral Part of this Statement.

Statement of Cash Flows (Continued)

A reconciliation of operating loss to net cash from operating activities is as follows:

	Year Ended June 30	
	2008	2007
Operating loss	$ (4,975,379)	$ (4,228,521)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	4,016,335	3,728,497
Bad debt expense	16,876	1,291
(Increase) decrease in assets:		
Accounts receivable	651,639	(326,369)
Other current assets	(41,409)	(19,820)
Increase (decrease) in liabilities:		
Accounts payable	530,015	51,759
Compensated absences payable	34,576	(68,019)
Net cash provided by (used in) operating activities	**$ 232,653**	**$ (861,182)**

Note 1 - Description of Organization and Summary of Significant Accounting Policies

Reporting Entity - Capital Region Airport Authority (the "Authority") was established on October 1, 1970 as a result of Public Act No. 73 of the Public Acts of 1970. The law took immediate effect upon the governor's signature on July 16, 1970. The Authority is charged with the responsibility of all public airport facilities within the jurisdictional confines of the Authority. As required by accounting principles generally accepted in the United States of America, these financial statements present Capital Region Airport Authority. No other component units have been combined into the Authority's basic financial statements.

Basis of Presentation - The financial statements include the accounts of the Authority and have been prepared on the accrual basis. The significant accounting policies of the Authority, as summarized below, conform with proprietary fund accounting and reflect practices appropriate to the regulatory environment in which it operates.

Basis of Accounting - In accordance with Governmental Accounting Standards Board (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements. Additionally, the Authority follows all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB pronouncements. After November 30, 1989, the Authority only applies applicable GASB pronouncements.

These full accrual financial statements are reported using the economic resources measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When an expense has been incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy is to first apply restricted resources.

Cash and Cash Equivalents - The Authority considers all investments purchased with an original maturity of three months or less to be cash equivalents.

Investments - Investments are stated at fair value, based on quoted market prices, and consist principally of money market funds, mutual funds, and governmental securities.

Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued)

Trade Accounts Receivable - Accounts receivable represents amounts due from airlines and other entities. An allowance for doubtful accounts is recognized based on a specific assessment of receivable balances that remain unpaid. The allowance is determined based on management's estimate of amounts recoverable from each entity. Amounts deemed to be uncollectible are written off in the period that the determination is made. At both June 30, 2008 and 2007, the allowance for doubtful accounts was $20,000.

Other Assets - Other assets primarily include the bond issue costs on the revenue bond issues, which are being amortized using the interest method over the term of the respective issues.

Capital Assets - Capital assets are carried at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. Costs of maintenance and repairs are charged to expense when incurred. Capital assets are defined by the Authority with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year.

Costs incurred by the Authority for capital improvement projects are accumulated as airport improvements in progress until the project becomes operational, at which time such costs are transferred to the appropriate capital asset account.

Revenue/Expenses - Operating revenues and expenses generally result from providing services. All other revenues and expenses are reported as nonoperating.

Property Taxes - Ingham and Eaton Counties collect taxes on behalf of the Authority. The 2007 taxable valuation of properties totaled $7,857 million (a portion of which is abated and a portion of which is captured by other jurisdictions), on which ad valorem taxes levied consisted of .6789 mills for operating purposes. This resulted in $5.2 million of tax revenue for the Authority.

Reclassification - Reclassifications were made to revenue and expense amounts in the 2007 financial statements to conform to the classifications used in 2008.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated five banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as allowed by the state statutory authority as listed above. The Authority's deposits and investment policies are in accordance with statutory authority except as follows:

During the year, for FDIC insurance purposes, the Authority had certificates of deposit that, through a placement program, were held in federally insured banks, credit unions, and savings and loan associations that had offices outside of Michigan. Once the certificates of deposit mature, the Authority intends to invest the funds at financial institutions in Michigan.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At June 30, 2008 and 2007, the Authority had $12,213,688 and $8,124,452, respectively, of bank deposits (checking and savings accounts), of which $9,798,049 and $7,503,983, respectively, was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 2 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At June 30, 2008 and 2007, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
June 30, 2008:		
None	$ -	-
June 30, 2007:		
U.S. government or agency bond or note	$ 350,850	.5 years

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
June 30, 2008:			
Mutual funds/Money market	$ 2,331,113	AAA	Standard & Poor's
June 30, 2007:			
Mutual funds/Money market	$ 3,682,717	AAA	Standard & Poor's

Note 3 - Restricted Assets

The restricted funds at June 30, 2008 and 2007 are required under the Authority's 2002 revenue bond resolutions and the provisions of the Federal Passenger Facility Charge Program. These funds, which consist of cash and investments, are segregated into the following funds:

	Required Reserves	
	2008	2007
Passenger facility charge deposits	$ 208,352	$ 1,880,972
Bond interest and redemption fund	939,103	925,998
Bond reserve account	1,279,425	1,279,425
Renewal and replacement account	300,000	300,000
Operations and maintenance reserve account	1,337,500	1,364,600
Total restricted assets	$ 4,064,380	$ 5,750,995

Requirements of the following reserve account must be maintained if not expended on approved projects:

- **Passenger Facility Charge Deposits** - These deposits are funds collected from passengers in conjunction with the Federal Passenger Charge Program. The funds may only be used for projects approved by the Federal Aviation Administration in the Authority's record of decision.

Requirements of the following reserve accounts must be maintained at all times:

- **Bond Interest and Redemption Fund** - This fund is restricted for payment of the current portion of bond principal and interest.

- **Bond Reserve Account** - This account maintains a reserve for the lesser of the following: 10 percent of the initial face amount of the Series 2002 Bonds, the maximum annual principal and interest requirements on the Series 2002 Bonds for a calendar year, or 125 percent of the average annual principal and interest requirements on the Series 2002 Bonds.

- **Renewal and Replacement Account** - This account was created to establish and maintain a reserve of $300,000 to be used to pay unanticipated emergency repairs at the Authority's facilities.

Note 3 - Restricted Assets (Continued)

Requirements of the following reserve account must be fulfilled prior to the issuance of additional debt of a prior or equal standing with respect to rights in liquidation of existing debt.

Operations and Maintenance Reserve Account - This account maintains a reserve for operations and maintenance expenses equal to two months of the cost of operating and maintaining Authority facilities during the immediately preceding fiscal year of the Authority.

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	July 1, 2007	Additions (Deductions)	June 30, 2008	Depreciable Life - Years
Capital Assets Not Being Depreciated				
Land:				
Capital City Airport	$ 9,266,658	$ 5,651,501	$ 14,918,159	
Mason Jewett Field	860,639	10,162	870,801	
Total land	10,127,297	5,661,663	15,788,960	-
Airport improvements in progress	16,300,423	(3,415,470)	12,884,953	-
Total capital assets not being depreciated	26,427,720	2,246,193	28,673,913	
Other Capital Assets				
Land improvements - Capital City Airport	9,609,678	9,699	9,619,377	10-20
Buildings and improvements:				
Capital City Airport	33,789,139	566,035	34,355,174	
Mason Jewett Field	204,803	99,925	304,728	
Total buildings and improvements	33,993,942	665,960	34,659,902	10-20
Runways and taxiways:				
Capital City Airport	23,715,996	674,905	24,390,901	
Mason Jewett Field	2,485,955	-	2,485,955	
Total runways and taxiways	26,201,951	674,905	26,876,856	20
Machinery and equipment:				
Capital City Airport	13,296,180	4,839,291	18,135,471	
Mason Jewett Field	37,186	-	37,186	
Total machinery and equipment	13,333,366	4,839,291	18,172,657	3-10
Master plan:				
Capital City Airport	571,232	-	571,232	
Mason Jewett Field	243,000	41,483	284,483	
Total master plan	814,232	41,483	855,715	20
Subtotal other capital assets	83,953,169	6,231,338	90,184,507	
Less Accumulated Depreciation	53,074,608	3,969,826	57,044,434	
Other capital assets - Net	30,878,561	2,261,512	33,140,073	
Net capital assets	$ 57,306,281	$ 4,507,705	$ 61,813,986	

Note 4 - Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2007 was as follows:

	July 1, 2006	Additions	June 30, 2007	Depreciable Life - Years
Capital Assets Not Being Depreciated				
Land:				
Capital City Airport	$ 9,266,658	$ -	$ 9,266,658	
Mason Jewett Field	860,639	-	860,639	
Total land	10,127,297	-	10,127,297	-
Airport improvements in progress	11,327,358	4,973,065	16,300,423	-
Total capital assets not being depreciated	21,454,655	4,973,065	26,427,720	
Other Capital Assets				
Land improvements - Capital City Airport	9,149,308	460,370	9,609,678	10-20
Buildings and improvements:				
Capital City Airport	33,642,873	146,266	33,789,139	
Mason Jewett Field	204,803	-	204,803	
Total buildings and improvements	33,847,676	146,266	33,993,942	10-20
Runways and taxiways:				
Capital City Airport	23,582,810	133,186	23,715,996	
Mason Jewett Field	2,485,955	-	2,485,955	
Total runways and taxiways	26,068,765	133,186	26,201,951	20
Machinery and equipment:				
Capital City Airport	12,221,789	1,074,391	13,296,180	
Mason Jewett Field	37,186	-	37,186	
Total machinery and equipment	12,258,975	1,074,391	13,333,366	3-10
Master plan:				
Capital City Airport	571,232	-	571,232	
Mason Jewett Field	243,000	-	243,000	
Total master plan	814,232	-	814,232	20
Subtotal other capital assets	82,138,956	1,814,213	83,953,169	
Less Accumulated Depreciation	49,346,109	3,728,499	53,074,608	
Other capital assets - Net	32,792,847	(1,914,286)	30,878,561	
Net capital assets	$ 54,247,502	$ 3,058,779	$ 57,306,281	

Note 4 - Capital Assets (Continued)

Airport improvements in progress consist of the following:

	2008	2007
Federal projects:		
Project 3403 - Lansing Security Upgrades	$ -	$ 4,765,500
Project 3604 - Runway Extension E.A./P.E.	-	520,068
Project 3704 - West Access Road	-	1,005,604
Project 3805 - Wetland Mitigation	-	4,333,777
- Benefit Cost Analysis	-	61,880
Project B.26.0106.0904 - Mason Jewett Field	-	36,646
Project B-26-0106-1106 - Mason Jewett Taxiway Relocation	1,009,728	456,300
Project 3906/4107 - Dewitt Road Land Purchase	5,644,164	3,306,061
Project 2000-0863/A3 - Loading Bridge Design (Phase 1)	425,284	750,587
Project 4007 - Cargo Phase I	2,478,625	114,600
- Rehab Terminal Apron	723,679	46,960
- Parcel 128 Demolition	68,047	5,425
- 405 Survey Runway Ext. Phase II	45,222	10,504
Project 4208 - Runway Extension, Land Acquisition	156,871	-
Project 4308 - Federal Inspection Station	120,016	-
Project 2005-0335 - P.A. System Upgrade	48,227	48,227
Authority projects:		
Business Park	226,250	226,250
TSA Remodel	129,612	37,100
Master Plan/Part 150	889,934	574,934
Terminal Concessions	121,179	-
G. A. Hangar	798,115	-
Total	$ 12,884,953	$ 16,300,423

Note 5 - Revenue Bonds Payable

Revenue bonds payable consist of the following at June 30, 2008:

	Beginning Balance	Current Year Reductions	Ending Balance	Due Within One Year
Series 2002 - B	$13,060,000	$ (610,000)	$12,450,000	$ 635,000
Less bond discount	(115,875)	8,277	(107,598)	-
Deferred amount on refunding of bonds	(403,247)	28,803	(374,444)	-
Total	$12,540,878	$ (572,920)	$11,967,958	$ 635,000

The Authority issued revenue bonds in the amount of $15,330,000 dated March 15, 2002 (Series B) for the purpose of refunding Series 1992 Bonds which were for the purpose of constructing new hold rooms, ticket counters, and offices, other renovations and improvements to the terminal building, and improvements to the parking lot and terminal circulation roadways. The bonds bear interest at an average rate of 4.9 percent. The bonds are secured by a first lien upon the net revenue, as defined, of the Authority.

Note 5 - Revenue Bonds Payable (Continued)

The annual requirements to amortize the Series 2002-B Revenue Bonds and related interest at June 30, 2008 are as follows:

Years Ending June 30	Principal Due July 1	Interest Due July 1 and January 1	Total
2009	$ 635,000	$ 595,346	$ 1,230,346
2010	670,000	568,250	1,238,250
2011	695,000	538,896	1,233,896
2012	730,000	507,173	1,237,173
2013	765,000	472,779	1,237,779
2014	805,000	435,672	1,240,672
2015	845,000	395,650	1,240,650
2016	885,000	352,823	1,237,823
2017	935,000	307,323	1,242,323
2018	985,000	259,323	1,244,323
2019	1,035,000	208,305	1,243,305
2020	1,095,000	153,169	1,248,169
2021	1,155,000	94,107	1,249,107
2022	1,215,000	31,894	1,246,894
Total	$ 12,450,000	$ 4,920,710	$ 17,370,710

Note 6 - Compensated Absences

Compensated absences activity for the years ended June 30, 2008 and 2007 was as follows:

2008	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Amounts Due Within One Year
Compensated absences	$ 438,342	$ 34,576	$ -	$ 472,918	$ 146,741

2007	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Amounts Due Within One Year
Compensated absences	$ 506,361	$ -	$ 68,019	$ 438,342	$ 152,030

Note 7 - Leases

The Authority leases land, terminal space, and offices to various entities under the terms of noncancelable operating leases. Substantially all leases include a provision for future rental adjustments based upon changes in the Consumer Price Index. Rental receipts include minimum rentals plus contingent rentals based on sales volume.

Rental income from the operating leases consisted of the following:

	2008	2007
Minimum rental	$ 4,226,113	$ 3,150,889
Contingent rentals	1,540,664	2,441,009
Total	$ 5,766,777	$ 5,591,898

Future minimum lease rentals to be received under noncancelable operating leases, with initial or remaining lease terms in excess of one year as of June 30, 2008 are as follows:

2009	$ 1,097,989
2010	1,045,708
2011	1,056,415
2012	1,054,701
2013	803,821
Later years through 2051	7,193,671
Total	$ 12,252,305

Note 8 - Defined Benefit Pension Plan

Plan Description - The Authority participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all employees. The system provides retirement, disability, and death benefits to plan members and beneficiaries. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Authority's competitive bargaining units and requires a contribution from the employees of 0.36 percent, 0 percent, and 6.78 percent from AFSCME Capital City Airport Chapter of Local 1390, Public Safety Department Unit, and Public Safety Department Sergeants Unit, respectively.

Note 8 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the years ended June 30, 2008 and 2007, the Authority's annual pension cost was equal to the Authority's required and actual contribution. The annual required contribution for 2008 and 2007 was determined as part of an actuarial valuation at December 31, 2005 and 2004, respectively, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent, and (c) additional projected salary increases ranging from 0 percent to 8.40 percent per year, depending on age, attributable to seniority and merit. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year Trend Information

Years Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	$ 489,076	100	$ -
2007	463,438	100	-
2006	462,496	100	-

Valuation Date	Actuarial Asset Values	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
December 31, 2007	$ 8,492,347	$ 12,899,663	$ 4,407,316	66	$ 2,615,302	169
December 31, 2006	8,091,185	12,423,355	4,332,170	65	2,625,591	165
December 31, 2005	7,594,015	11,958,406	4,364,391	64	2,512,190	174

Note 9 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 10 - Postemployment Benefits

The Authority provides healthcare benefits to all full-time employees upon retirement. Currently, 26 employees are eligible. The Authority includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participant. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due; during 2008 and 2007, this amounted to approximately $258,000 and $218,000, respectively.

Upcoming Reporting Change - The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Post-Employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Note 11 - Subsequent Events

On September 25, 2008, the Authority issued revenue bonds in the amount of $4,965,000 for the purchasing of land and for constructing a U.S. Customs federal inspection station. The bonds bear interest at 5.16 percent. The bonds are secured by a first lien upon the net revenue, as defined, of the Authority.

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October 27, 2008

To the Board of Directors
Capital Region Airport Authority

We have recently completed our audit of the basic financial statements of Capital Region Airport Authority (the "Authority") for the year ended June 30, 2008. In addition to our audit report, we are providing the following observation and information comments for your consideration:

Investment Compliance

During the audit, it was noted that for FDIC insurance purposes, the Authority had certificates of deposit that, through a placement program, were held in federally insured banks, credit unions, and savings and loan associations that had offices outside of Michigan. This placement program is not in compliance with Public Act 20 of 1943, as amended. It is our understanding that the Authority is currently holding these certificates of deposit until maturity, at which time the monies will then be invested at financial institutions with offices in Michigan as required by Public Act 20 of 1943, as amended.

Retiree Healthcare Benefits

The Governmental Accounting Standards Board released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid.

The new pronouncement will require a valuation of the obligation to provide retiree healthcare benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the statement of net assets. This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three-year period, similar to GASB 34. It is effective for fiscal year ending June 30, 2010 for the Authority. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months' lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates. The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. Thus, funding the contribution will actually reduce your long-run cost.

We are grateful for the opportunity to be of service to the Authority. The cooperation extended to us by the Authority's staff throughout the audit was greatly appreciated. Should you wish to discuss any of the items in this report, we would be happy to do so.

Very truly yours,

Plante & Moran, PLLC

Jean Young

Jean M. Young, CPA

Partner